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WESTERN SUPPLIES LIMITED

ANNUAL REPORT

for the year ending January 31, 1975



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WSL WESTERN SUPPLIES LIMITED

14635 - 121A AVENUE, EDMONTON, ALBERTA

DIRECTORS

J. Alexander
M. L. Cosgrove
L. C. Ecklund
T. A. Graham
W. A. Graham
F. R. Godfrey
I. T. Hay
P. L. P. Macdonnell, Q.C.
L. C. Reise
H. W. Skaret

W. R. Taprell *Benford*
Shareholder

TRANSFER AGENT AND REGISTRAR

Class "A" Shares
National Trust Company, Limited
Edmonton, Toronto, Vancouver

AUDITORS

Peat, Marwick, Mitchell & Co.
25th Floor, 10020 - 100 Street,
Edmonton, Alberta

OFFICERS

T. A. Graham, Chairman of the Board
W. A. Graham, President
J. Alexander, Vice-President
L. C. Ecklund, Vice-President
L. C. Reise, Vice-President
H. W. Skaret, Vice-President
F. R. Godfrey, Secretary-Treasurer

BANKERS

Canadian Imperial Bank of Commerce

ANNUAL MEETING

The annual meeting of shareholders will be held at
the Edmonton Inn, Monday, June 16, 1975, at
11:30 a.m.

VICTORIA • ABBOTSFORD • CHILLIWACK • NEW WESTMINSTER • RICHMOND • VANCOUVER
KAMLOOPS • VERNON • KELOWNA • PENTICTION • CRANBROOK • PRINCE GEORGE • CAMPBELL RIVER
COQUITLAM • DAWSON CREEK • GRANDE PRAIRIE • FT. McMURRAY • EDMONTON • RED DEER
CALGARY • SASKATOON • REGINA • WINNIPEG • THUNDER BAY • HAMILTON • BRANTFORD
• LONDON • BELLEVILLE • WOODSTOCK • WELLAND • TORONTO • ST. THOMAS • RICHMOND HILL
COLLINGWOOD • LINDSAY • ORILLIA • OSHAWA

ANNUAL REPORT TO THE SHAREHOLDERS

TO: THE SHAREHOLDERS

The Board of Directors takes pleasure in submitting the following report on the affairs of the Company and its subsidiaries for the fiscal year ended January 31, 1975. The year under review is the 65th since the Company first commenced business in Edmonton and it now conducts its business through 44 branches in the Province of Alberta, British Columbia, Saskatchewan, Manitoba and Ontario. Consolidated financial statements of the Company and its subsidiaries with comparative figures for the previous year form part of this report.

OPERATING RESULTS

The Company attained all time record sales and net earnings during the past year. Sales increased approximately 35% and consolidated net earnings after provision for depreciation and taxes amounted to \$2,739,799 as compared with \$1,748,631 for the previous year. Earnings available for dividends on the Class A and Class B shares amounted to \$10.15 per share as compared with \$6.47 per share in the preceding year. The regular dividend of 75c per share, together with an extra dividend of 62½c per share were declared on the Class A shares and earnings available to pay this dividend amounted to \$22.83 per share as compared with \$14.57 the previous year. Dividends totalling \$1.37½ per share were also declared on the Class B shares. As the Company elected to pay the 15% tax on a portion of its 1971 undistributed income on hand the dividends on both the Class A and Class B shares were tax free in the hands of shareholders.

EXPANSION

New branches were opened during the year in Sarnia and Weston, Ontario and in Campbell River, British Columbia. New and improved premises were acquired in Saskatoon to better serve customers in that area.

OUTLOOK

A low rate of growth is generally expected for the Canadian economy during 1975. First quarter figures indicate a drop in housing starts and this trend is not likely to be offset by lower interest rates or Government programs at either the federal or provincial level. Continuing increases in wages and other expenses will almost certainly result in a reduction in the Company's operating profit although the impact of these increases will vary in the different market areas served by the Company.

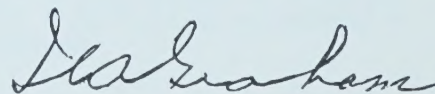
EMPLOYEES

The gratifying records achieved by the Company during the year just ended could not have been accomplished without the dedication, resourcefulness and skills of the management and staff. It gives the Directors pleasure to acknowledge their efforts.

On behalf of the Board of Directors



Chairman



President

Western Supplies Limited and Subsidiaries

CONSOLIDATED STATEMENT OF EARNINGS

Year ended January 31, 1975
(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Sales (net)	\$60,751,623	44,712,720
Operating profit before depreciation and amortization	6,613,353	4,038,536
Depreciation and amortization of fixed assets	168,876	112,478
Amortization of goodwill	26,134	22,000
	<u>195,010</u>	<u>134,478</u>
Operating profit	6,418,343	3,904,058
Other income:		
Rental income, net	32,061	25,322
Profit on sale of fixed assets	—	19,528
	<u>32,061</u>	<u>44,850</u>
	6,450,404	3,948,908
Other charges:		
Interest on long-term debt	146,484	65,121
Other interest	475,699	296,964
	<u>622,183</u>	<u>362,085</u>
Net earnings before income taxes	5,828,221	3,586,823
Income taxes	3,088,422	1,838,192
Net earnings	<u>\$ 2,739,799</u>	<u>1,748,631</u>
Earnings per outstanding Class A and B share	<u>\$ 10.15</u>	<u>6.47</u>

See accompanying notes to consolidated financial statements.

CONSOLIDATED STATEMENT OF RETAINED EARNINGS

Year ended January 31, 1975
(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Balance at beginning of year	\$ 6,788,150	5,297,179
Add:		
Net earnings	2,739,799	1,748,631
Transfer of capital surplus on liquidation of subsidiary company	—	27,340
	<u>9,527,949</u>	<u>7,073,150</u>
Deduct:		
Dividends on Class A shares	165,000	120,000
Dividends on Class B shares	206,250	150,000
15% tax paid on undistributed income	85,710	15,000
	<u>456,960</u>	<u>285,000</u>
Balance at end of year	<u>\$ 9,070,989</u>	<u>6,788,150</u>

See accompanying notes to consolidated financial statements.

WESTERN SUPPLIES LTD.
Consolidated Balance Sheet
(with comparative figures)

ASSETS

	1975	1974
CURRENT ASSETS:		
Accounts receivable, less allowance for doubtful accounts	\$ 8,129,255	8,299,106
Inventories of merchandise, at the lower of cost or estimated realizable value	10,244,931	8,305,969
Prepaid expenses	<u>24,877</u>	<u>13,513</u>
Total current assets	18,399,063	16,618,588
 CASH SURRENDER VALUE OF LIFE INSURANCE	 71,511	 42,090
8% AGREEMENT FOR SALE RECEIVABLE, less amount due within one year	149,686	179,835
 PROPERTY, PLANT AND EQUIPMENT, at cost less depreciation and amortization (note 1 (c)):		
Buildings	1,469,029	1,217,832
Furniture, fixtures and other equipment	654,171	526,044
Automotive	326,214	207,935
Other	<u>166,312</u>	<u>118,356</u>
	2,615,726	2,070,167
Less accumulated depreciation and amortization	<u>1,386,029</u>	<u>1,201,975</u>
	1,229,697	868,192
 Building under construction	 275,212	 —
Land	<u>338,469</u>	<u>289,278</u>
Net property, plant and equipment	1,843,378	1,157,470
 UNAMORTIZED DEBT DISCOUNT AND EXPENSE (note 4)	 —	 17,559
GOODWILL, at cost less accumulated amortization (notes 1 (b) and 2)	427,200	396,000
 On behalf of the Board:		
 <i>J.A. Graham</i> Director		
 <i>M. Graham</i> Director		
	<u><u>\$20,890,838</u></u>	<u><u>18,411,542</u></u>

See accompanying notes to consolidated financial statements.

D AND SUBSIDIARIES

et, January 31, 1975

gures for 1974)

LIABILITIES AND SHAREHOLDERS' EQUITY

	1975	1974
CURRENT LIABILITIES:		
Due to bank, secured (note 3):		
Outstanding cheques less cash in bank	\$ 347,115	471,158
Notes payable	<u>2,289,000</u>	<u>3,403,000</u>
	2,636,115	3,874,158
Accounts payable and accruals	5,632,926	5,111,664
Current maturities on long-term debt (note 4)	665,900	161,147
Dividends payable	202,500	168,750
Income taxes payable	<u>1,200,819</u>	<u>1,208,188</u>
Total current liabilities	10,338,260	10,523,907
LONG-TERM DEBT less current maturities (note 4)	1,125,927	743,823
DEFERRED INCOME TAXES	30,000	30,000
SHAREHOLDERS' EQUITY:		
Capital stock (note 5):		
Authorized:		
120,000 Class A shares without nominal or par value		
and 340,000 Class B shares without nominal or		
par value, issuable for a maximum considera-		
tion of \$1,200,000.		
Issued:		
120,000 Class A shares	69,536	69,536
150,000 Class B shares	<u>256,126</u>	<u>256,126</u>
	325,662	325,662
Retained earnings	<u>9,070,989</u>	<u>6,788,150</u>
Total shareholders' equity	9,396,651	7,113,812
COMMITMENTS (note 7)		
	<u>\$20,890,838</u>	<u>18,411,542</u>

Western Supplies Limited and Subsidiaries

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

Year ended January 31, 1975
(with comparative figures for 1974)

	<u>1975</u>	<u>1974</u>
Funds provided:		
From operations:		
Net earnings	\$ 2,739,799	1,748,631
Add charges not requiring working capital during the year	<u>214,817</u>	<u>113,372</u>
Funds provided by operations	2,954,616	1,862,003
Proceeds from disposal of property, plant and equipment	18,577	142,910
Mortgages payable assumed	140,355	—
Proceeds of long-term bank loan	1,000,000	—
Reduction in agreement for sale receivable	<u>30,149</u>	<u>7,615</u>
Total funds provided	<u>4,143,697</u>	<u>2,012,528</u>
Funds used:		
Purchase of property, plant and equipment	796,089	151,445
Reduction of long-term debt	767,651	161,503
Acquisition of subsidiary company, net of working capital acquired of \$343,125 (note 2)	156,875	—
Dividends on Class A and Class B shares	371,250	270,000
Tax paid on undistributed income	85,710	15,000
Other	—	2,465
Total funds used	<u>2,177,575</u>	<u>600,413</u>
Increase in working capital	1,966,122	1,412,115
Working capital at beginning of year	<u>6,094,681</u>	<u>4,682,566</u>
Working capital at end of year	<u>\$ 8,060,803</u>	<u>6,094,681</u>

See accompanying notes to consolidated financial statements.

Western Supplies Limited and Subsidiaries

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

January 31, 1975

1. Significant accounting policies:
 - (a) The consolidated financial statements include the accounts of all subsidiary companies. All material intercompany transactions have been eliminated.
 - (b) The company is following the policy of amortizing goodwill arising on the acquisition of subsidiary companies equally over a period of twenty years.
 - (c) The companies use the declining balance method to provide depreciation over the estimated useful lives of the fixed assets. Depreciation rates for the more significant items are set out below:

Brick buildings	5%	Furniture, fixtures and other equipment	20%
Frame buildings	10%	Automotive equipment	30%
 - (d) The companies have a pension plan covering the majority of their employees. It is the policy of the companies to fund pension costs on a current basis.
2. Acquisition of Quality Utilities Limited:

On February 1, 1974 the company acquired all of the outstanding shares (a 100% interest) of Quality Utilities Limited, a wholesaler of plumbing and heating supplies in the Province of Ontario. This transaction was accounted for as a purchase, with the operating results of the acquired business being included in the consolidated statement of earnings from the date of acquisition. Goodwill of \$57,334 arose on the purchase and is being amortized in accordance with the company's policy set out note 1 (b).
3. Bank loans:

The bank loans are secured by a first floating charge on all assets and undertakings to a limit of \$1,500,000 and by assignment of accounts receivable and fire insurance on stock and fixtures.
4. Long-term debt:

Long-term debt at January 31, 1975 consists of:

	Total Amount	Current Maturities
6½% secured debentures, Series B	\$ 495,000	495,000
8% note payable, annual payments of \$60,000 to 1977	180,000	60,000
Agreement and mortgages payable	193,327	8,900
Bank term loan	923,500	102,000
	1,791,827	665,900
Deduct current maturities	665,900	
	\$ 1,125,927	

The 6½% secured debentures, Series B, were redeemed subsequent to January 31, 1975. Accordingly, the total amount of the debentures has been included in current maturities and the debt discount and expense pertaining to the debentures has been written off.
5. Capital stock:

The Class A shares are entitled to fixed, cumulative, preferential dividends at the rate of \$.75 per share per annum; after like non-cumulative dividend on Class B shares is paid, are participating; are non-voting (except that the holders are entitled to elect two directors so long as not less than 20,000 Class A shares are outstanding) unless the company is in arrears in the aggregate of four semi-annual dividends; and are convertible at the option of the holder, at any time, into Class B shares without nominal or par value, at the rate of one (1) Class B share for each Class A share and the provisions attached to the Class A shares provide for an appropriate adjustment in the conversion rate in the event of subdivision or consolidation of the Class B shares. The company has reserved 120,000 of the authorized but unissued Class B shares for conversion of the Class A shares.
6. Remuneration of directors and senior officers:

Fees and other remuneration of directors and senior officers totalled \$789,161 for the year ended January 31, 1975.
7. Commitments:

The companies have entered into lease agreements for warehouse premises covering terms varying from one to twenty years. Rental payments amounted to approximately \$286,500 for the year ended January 31, 1975.

AUDITORS' REPORT TO THE SHAREHOLDERS

We have examined the consolidated balance sheet of Western Supplies Limited and subsidiaries as of January 31, 1975 and the consolidated statements of earnings, retained earnings and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the company and subsidiaries at January 31, 1975 and the results of their operations and the changes in their financial position for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Pest, Mennick, Mitchell & Co.

Chartered Accountants

Edmonton, Alberta
March 26, 1975

Western Supplies Limited and Subsidiaries

TEN YEAR SUMMARY

(In Thousands of Dollars except net earnings per share)

INCOME STATISTICS	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Sales	\$ 60,752	44,713	32,908	24,324	22,153	23,964	23,150	22,995	22,582	20,897
Earnings before income taxes	5,828	3,587	1,170	911	126	690	485	669	760	804
Income taxes	3,088	1,838	573	456	69	350	277	325	373	367
Net earnings (see note 1)	2,740	1,749	806(1)	455	57	340	208	344	387	437
Per share	\$ 10.15	6.47	2.99	1.75	.22	1.31	.80	1.32	1.48	1.68
Dividends	371	270	202	195	160	90	195	195	160	146
Class "A" shares	165	120	90	90	90	90	90	90	90	90
Class "B" shares	206	150	112	105	70	—	105	105	70	56

BALANCE SHEET STATISTICS	1975	1974	1973	1972	1971	1970	1969	1968	1967	1966
Current assets	\$ 18,399	16,619	11,301	9,005	8,489	9,021	8,615	8,004	8,282	8,759
Current liabilities	10,338	10,524	6,619	4,790	4,461	4,803	4,643	3,976	4,367	4,978
Working capital	8,061	6,095	4,682	4,215	4,028	4,218	3,972	4,028	3,915	3,781
Ratio of current assets to current liabilities	1.8	1.6	1.7	1.9	1.9	1.9	1.9	2.0	1.9	1.8
Fixed assets (net)	1,843	1,157	1,238	1,241	1,172	1,164	1,275	1,239	1,258	1,269
Long term debt	1,126	744	905	718	712	793	913	963	1,024	1,094
Total shareholders' equity	9,397	7,114	5,650	4,871	4,611	4,714	4,464	4,451	4,302	4,095

(1) NET EARNINGS FOR 1973 INCLUDE EXTRAORDINARY EARNINGS OF \$209,000

